Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

PRICES SLIDE ON SOFT FUNDAMENTALS

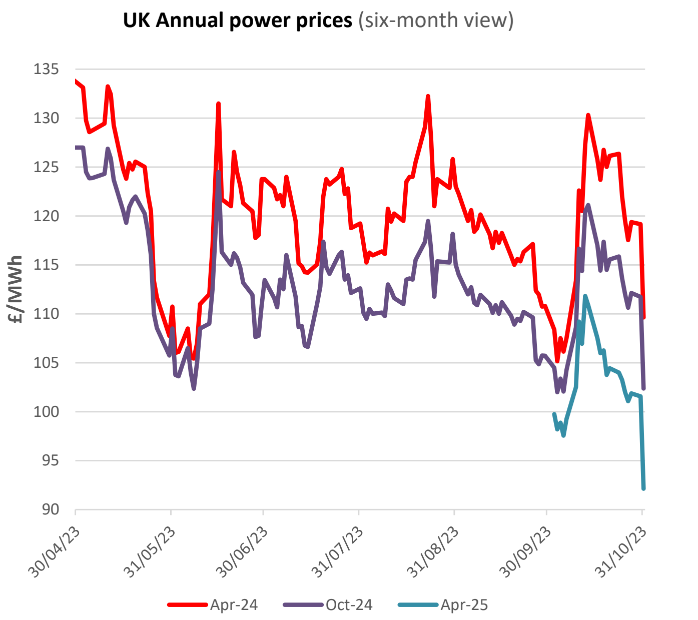
UK power prices have been moving down sharply over the past fortnight – tumbling after a surge in early October catalysed by geopolitical tensions – with strong renewable generation, mild weather and increasing imports from the continent all helping periods to spiral lower. Risk associated with the conflict in Israel – always more theoretical than fundamental – has now started to wane as a fairly warm start to Q4 combined with decent wind generation have become the main driver of electricity values, for now. April '24 Annual Baseload has shed 14% over the last two weeks to move under £109/MWh, bringing it back into line with levels seen in early October before the violence erupted in Israel. October '24 and April '25 Annuals have shed 12% and 14%, respectively, over the past couple of weeks.

Across the latter half of October UK wind farms have produced just under 8 GW on average, accounting for nearly 30% of all power generated during the fortnight. Demand has been creeping up as daylight hours have been reduced, although overall the UK has been well-supplied as net imports from the continent and Ireland have more than doubled. Deliveries from France have been particularly buoyant with net inflows from the country into the UK almost five times higher than during the first two weeks of October after French wind and hydro generation ballooned. Strong imports and signals the windy conditions will continue into November have helped UK Day-ahead power fall below £69/MWh at the time of writing, about 40% lower than a fortnight ago.

It has been a different story in Germany where wind output has been on the decline and thermal generation – especially from coal plants – has been required to step in to make up the shortfall. But with coal and gas values falling the drop in German renewable output has not had much influence and the front year has shed 14% to EUR 118/MWh currently. The same period has been even weaker in neighbouring France with a decline of nearly 20% to EUR 122/MWh.

Back in the UK the near-term months – which were particularly strong in early October – have been heading downhill fast. November '23 ended October just below £98/MWh – a 12% drop over the last fortnight – after peaking at more than £120/MWh just after start of the conflict in Israel. The new front month – December '23 – is currently trading just over £100/MWh, crumbling nearly 20% over the past two weeks.

Elsewhere coal prices have been deflating – largely driven by losses in the gas market – with values for the fuel delivered into northwest Europe next month falling below $120/tonne. Month-ahead coal had risen above $140/tonne for the first time since April during the mid-October uplift across energy commodities. UK carbon has mirrored this trajectory and is now below £39/TCO2e – down more than 20% from peaks of £50/TCO2e – whereas EU emissions prices have been more resilient with a 4% slide to EUR 80/TCO2e.



ELECTRICITY: OUTLOOK

Power generators could face a 40% carbon tax on exports to the EU from next year – according to Energy UK – unless the country links carbon pricing to the EU's emissions trading scheme (ETS). The tax is because of the upcoming EU Carbon Border Adjustment Mechanism (CBAM) – due to be introduced in 2024 – which is aimed at preventing companies from locating manufacturing or production outside the EU to avoid the bloc's environmental tariffs. It will impose a tax at the border for goods that have a lower carbon price than available through the EU ETS. The UK government is reportedly already considering linking its emissions trading system to the EU ETS, which would raise extra revenues for the state by increasing the cost of carbon but will also push up the price of gas-fired power generation, which still accounts for some 40% of UK supply.

PRICES

Energy prices remain elevated and volatile due to continuing uncertainty over a wider middle east conflict

WIND

UK wind generation in November expected to be 14% higher than October

The European Parliament's Industry committee has voted to put nuclear back on the list of technologies eligible for preferential treatment through the EU's Net-Zero Industry Act. The act – launched by the European Commission in March – is a response to the US Inflation Reduction Act that will provide billions in subsidies to support domestic production of low carbon technology. Changes to the preferential technology list will need to be ratified by the European Parliamet in a vote expected next month.

HEATING

Average temperatures to warmer than previous years, reducing heating demand

UK wind generation is currently expected to average nearly 10 GW over the opening two weeks in November, more than 14% higher than production during October.

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr '24 Annual	chg	Oct '24 Annual	chg	Month-ahead	chg	Day-ahead index:	chg	Germany Cal '24	chg	France Cal '24	chg
109.63	-20.69	102.38	-18.75	98.44	-21.48	74.74	-55.26	117.63	-19.78	124.38	-23.13

KEY OTHER INDICATORS:

Coal ($/MT) '24	chg	Oil (Brent) $/bbl	chg	UKA '23 (£/TCO2)	chg	EUA '23 (€/TCO2	chg	EUA '24 (€/TCO2)	chg	EUA '25 (€/TCO2)	chg
119.18	-20.08	87.87	-1.75	39.27	-12.73	79.41	-6.25	83.33	-6.57	86.96	-7.09

All changes (chg) are compared to last report

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GAS

WARM CONDITIONS HELP MARKET TUMBLE

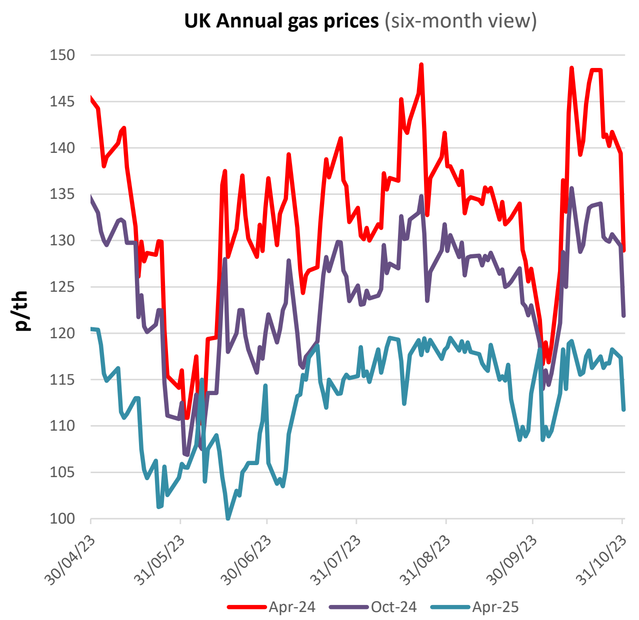
A mild start to the winter, relatively strong renewable output and continuing injections into storage have all helped to pull down gas prices over the past fortnight. Fears that global LNG supply would be disrupted by conflict in the Middle East have not materialised – other than one vessel reportedly turning away from Egypt empty-handed and heading to Algeria to pick up supplies – and attention has turned back to relatively benign fundamentals. Periods across the board have now unwound the gains from early October that were sparked by the conflict in Israel. April '24 Annual gas has moved below 128 p/th – a drop of 8% – in line with levels seen around a month earlier. October '24 and April '25 Annuals have slid 3-6% over the past fortnight.

Although gas prices in Asia have been higher than the Dutch market – the benchmark for the EU – through Q4 so far, LNG supply has held up fairly well. Volumes delivered from EU terminals during October have only been about 6% lower than the same period last year – when prices were at a substantial premium to Asia – and supply has been almost 70% higher than the 2017-21 average. This is mainly due to new import capacity coming online, with deliveries into newly built terminals underpinned by supply deals guaranteeing certain quantities. Steady LNG supply has allowed injections to continue into EU storage with sites now at capacity – according to Gas Infrastructure Europe – providing additional assurance for the colder months ahead.

UK November '23 ended October at 112 p/th, falling 6% from 121 p/th two weeks earlier and down from a peak of close to 140 p/th when the Israeli situation initially flared up. December '23 – the new front month – has dived almost 10% in the last fortnight to move below 123 p/th. Weak demand has added pressure here, with UK gas use more than 20% below the seasonal average during Q4 so far as mild weather has stopped households from reaching for the thermostat. Exports have also remained low with not much need for UK volumes on the continent, which has also experienced warm temperatures through most of October. Day-ahead gas is now 10% lower than levels seen a couple of weeks ago and was changing hands at 95 p/th at the time of writing.

Elsewhere, full EU storage has allowed Dutch Q1 '24 gas – covering the three months of the year with the highest demand – to start to meander downwards, with a 7% drop in the last couple of weeks bringing it to just over EUR 50/MWh currently. The same period on the German market has slipped below the EUR 50/MWh threshold after dipping nearly 10% since the middle of October.

Meanwhile oil values have crept down slightly although cuts to production from the majors – as well as the Israel situation being more pertinent to global oil supply than gas – have meant losses have been far less pronounced than on other energy commodities. North Sea crude is currently just under $86/bbl, slipping less than 3% over the last two weeks.



Bulgaria has implemented a EUR 10/MWh tax on Russian gas transiting the country in a move aimed at forcing buyers to find alternative suppliers. Russian gas enters Bulgaria from Turkey via the TurkStream pipeline with volumes then shipped to Hungary and Serbia. In the year to date the amount of gas entering Bulgaria – no longer a buyer of Russian gas – via this route has averaged 36 mcm per day, more than half of all Russian pipeline exports to Europe. Bulgaria has argued the move will hurt Russia and cut funding for the war in Ukraine, but buyers in the southeast are worried that already reduced pipeline supplies could be squeezed even more because of the heightened tariff.

EU STORAGE

EU gas storage at unprecedented levels above 99%

LNG TANKERS

10 LNG tankers due to dock in the UK over November

OIL & GAS

27 new oil and gas exploration licenses granted by the UK

Global demand for fossil fuels could peak before the end of the decade, according to a report from the International Energy Agency (IEA). The IEA paper suggests the share of coal, oil and gas in global energy supply – which has been around 80% for decades – could fall to 73% by 2030 as more renewable capacity comes online. This will be driven by falling coal use, while demand for oil is currently expected to be around 100 million barrels per day in 2030 and to remain around this level through to 2050; global gas use of just over 4,000 billion cubic metres annually – similar to current volumes – has been forecast over the same timeline.

The North Sea Transition Authority has granted 27 new licences for oil and gas exploration in UK waters, the highest number since 2016.

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Apr '24 Annual	chg	Oct '24 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2024:	chg	Oil (Brent) $/bbl:	chg
128.93	-19.70	121.88	-13.78	116.37	-15.59	105.41	-32.60	49.43	-7.10	87.87	-1.75

All changes (chg) are compared to last report

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